

BUSINESS SITUATION

This article was prepared by Daniel Larkins, Ralph W. Morris, Jennifer S. Argueta, and Pamela A. Kelly.

IN the second quarter of 2001, U.S. production was virtually flat, according to the “preliminary” estimates of the national income and product accounts (NIPAs). Over the past four quarters, real gross domestic product (GDP) has increased only 1.2 percent, as investment and exports were cut back and as consumer spending eased off in the wake of below-average income growth and declining household wealth. In the previous 37 quarters of the expansion that began in the second quarter of 1991, real GDP had grown at an average annual rate of 3.6 percent.

According to the preliminary estimates,

- Real gross domestic product (GDP)—a measure of domestic production of goods and services—increased 0.2 percent in the second quarter, the weakest showing since the first quarter of 1993, when GDP decreased 0.1 percent (table 1 and chart 1).¹ The 0.2-percent increase is 0.5 percentage point less than last month’s “advance” estimate

for the second quarter. (The source data underlying the revision to GDP and its components are discussed in the section “Revisions.”)

- Real private inventory stocks were liquidated at a faster pace than in the first quarter and at a

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

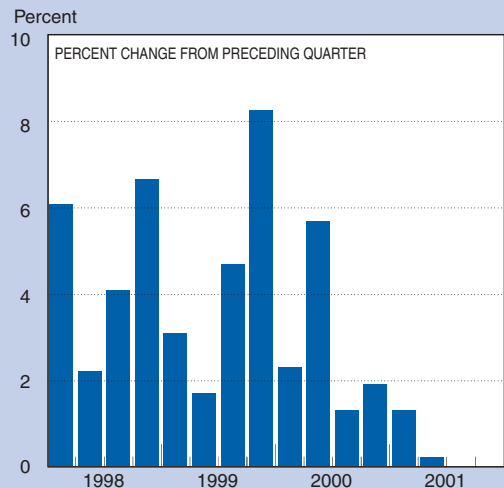
Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers
[Seasonally adjusted at annual rates]

	Millions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	2001	2000	2001	2001	2001	2000	2001	2001	2001
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	9,338.4	30.7	43.8	30.6	3.9	1.3	1.9	1.3	0.2
Less: Exports of goods and services	1,107.4	28.7	-11.8	-3.4	-36.7	10.6	-4.0	-1.2	-12.2
Plus: Imports of goods and services	1,517.9	47.2	-2.1	-19.9	-30.7	13.0	-0.5	-5.0	-7.7
Equals: Gross domestic purchases	9,720.4	47.0	52.9	16.0	10.0	2.0	2.2	0.7	0.4
Less: Change in private inventories	-38.4	-27.2	-8.9	-69.9	-11.3	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	9,744.0	68.9	64.6	76.7	20.2	2.9	2.7	3.2	0.8
Personal consumption expenditures	6,427.5	65.8	49.0	47.4	39.0	4.3	3.1	3.0	2.5
Durable goods	938.4	17.6	-4.7	23.0	16.0	8.2	-2.1	10.6	7.1
Nondurable goods	1,879.9	19.2	2.7	11.2	1.9	4.2	0.6	2.4	0.4
Services	3,628.1	30.6	48.6	16.3	23.0	3.5	5.6	1.8	2.6
Private fixed investment	1,695.9	10.9	2.0	8.2	-44.4	2.5	0.5	1.9	-9.8
Nonresidential	1,320.6	23.4	3.4	-0.6	-53.3	7.1	1.0	-0.2	-14.6
Structures	281.4	9.7	5.1	8.4	-10.3	15.2	7.6	12.3	-13.4
Equipment and software	1,044.1	12.7	-3.0	-11.6	-43.6	4.7	-1.1	-4.1	-15.1
Residential	378.1	-10.2	-1.0	7.6	5.2	-10.4	-1.1	8.5	5.8
Government consumption expenditures and gross investment	1,624.5	-7.2	12.8	20.6	21.1	-1.8	3.3	5.3	5.4
Federal	554.2	-15.1	6.1	4.3	2.0	-10.4	4.6	3.2	1.5
National defense	362.3	-9.7	8.7	6.5	2.0	-10.4	10.5	7.5	2.2
Nondefense	191.9	-5.5	-2.5	-2.2	0.1	-10.4	-5.1	-4.3	0.1
State and local	1,069.3	7.5	6.7	16.2	18.8	3.0	2.7	6.4	7.4
Addendum: Final sales of domestic product	9,361.8	52.8	55.4	91.1	14.0	2.3	2.4	4.0	0.6

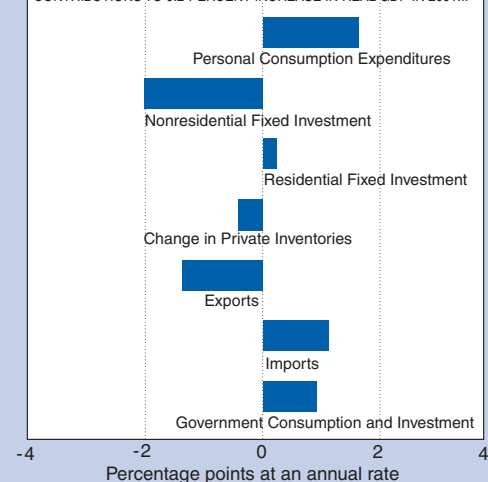
NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

CHART 1

Real Gross Domestic Product



CONTRIBUTIONS TO 0.2-PERCENT INCREASE IN REAL GDP IN 2001:II



U.S. Bureau of Economic Analysis

faster pace than had been estimated last month. The back-to-back declines in inventory stocks are the first since 1991.

- The growth of gross domestic purchases—a measure of domestic demand for goods and services regardless of where they were produced—was revised down 0.4 percentage point, to 0.4 percent.²

Table 2.—Contributions to Percent Change in Real Gross Domestic Product
[Seasonally adjusted at annual rates]

	2000		2001	
	III	IV	I	II
Percent change at annual rate:				
Gross domestic product	1.3	1.9	1.3	0.2
Percentage points at annual rates:				
Personal consumption expenditures	2.88	2.14	2.05	1.68
Durable goods	0.65	-0.17	0.83	0.57
Nondurable goods	0.84	0.12	0.49	0.08
Services	1.38	2.19	0.73	1.03
Gross private domestic investment	-0.51	-0.42	-2.28	-2.19
Fixed investment	0.44	0.09	0.33	-1.76
Nonresidential	0.91	0.13	-0.02	-2.00
Structures	0.45	0.24	0.39	-0.48
Equipment and software	0.46	-0.11	-0.41	-1.52
Residential	-0.47	-0.05	0.35	0.24
Change in private inventories	-0.95	-0.50	-2.61	-0.43
Net exports of goods and services	-0.70	-0.39	0.63	-0.26
Exports	1.13	-0.46	-0.13	-1.41
Goods	1.36	-0.58	-0.19	-1.46
Services	-0.22	0.12	0.06	0.05
Imports	-1.84	0.07	0.76	1.15
Goods	-1.48	0.07	0.87	1.22
Services	-0.36	0	-0.11	-0.07
Government consumption expenditures and gross investment	-0.32	0.58	0.92	0.94
Federal	-0.66	0.27	0.19	0.09
National defense	-0.42	0.38	0.28	0.09
Nondefense	-0.24	-0.11	-0.09	0
State and local	0.34	0.31	0.73	0.85

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

- The production of goods was revised down 1.1 percentage points to a 3.5-percent decrease, and the production of structures was revised down 1.9 percentage points to a 2.5-percent increase. In contrast, production of services was revised up 0.1 percentage point to a 2.3-percent increase.

Despite these revisions, the preliminary and advance estimates paint pictures of the economy that are similar in broad outline and in many important details. In both estimates,

- GDP growth slowed from the first quarter to the second, and the second-quarter growth was the smallest in years.

- Inventories were liquidated for the second consecutive quarter.

- The growth of final sales of domestic product—GDP less inventory investment—slowed sharply.

- The largest contributors to the second-quarter increase in real GDP were consumer spending and government spending (table 2).³

2. Gross domestic purchases is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment; thus, gross domestic purchases includes imports of goods and services, which are subtracted in the calculation of GDP, and does not include exports of goods and services, which are added in the calculation of GDP.

3. In the NIPAs, consumer spending is shown as personal consumption expenditures, government spending is shown as government consumption expenditures and gross investment, and inventory investment is shown as change in private inventories.

● GDP growth was held down by drops in business investment in equipment and software and in exports of goods.

● Real final sales of computers decreased sharply, while real motor vehicle output turned up (table 3). (In the preliminary estimate, real GDP less final sales of computers increased 0.5 percent, and real GDP less motor vehicle output decreased 0.6 percent.)

● The growth of real disposable personal income slowed slightly, and the personal saving rate changed little.⁴ (The rate was 1.1 percent in the preliminary estimate.)

4. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. The national saving rate, which is measured as gross saving as a percentage of gross national product and which was not available at the time of the advance estimate, decreased to 17.2 percent from 17.3 percent; it was the fourth consecutive decrease.

Table 3.—Real Gross Domestic Product by Type of Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2001	2000		2001		2000		2001	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	9,338.4	30.7	43.8	30.6	3.9	1.3	1.9	1.3	0.2
Goods.....	3,673.5	19.0	-22.6	-24.1	-32.7	2.1	-2.4	-2.6	-3.5
Services	4,843.2	13.1	57.4	26.2	27.1	1.1	4.9	2.2	2.3
Structures	822.7	-0.3	4.4	23.3	5.1	-0.2	2.2	12.3	2.5
Addenda:									
Motor vehicle output.....	336.4	-12.2	-19.1	-15.0	18.3	-12.8	-20.0	-16.9	25.1
Gross domestic product.....									
less motor vehicle output.....	9,001.3	42.1	61.3	44.2	-12.7	1.9	2.8	2.0	-0.6
Final sales of computers.....	.....	.....	.....	.....	.....	39.1	30.0	9.0	-26.4
Gross domestic product.....									
less final sales of computers .....	.....	.....	.....	.....	.....	1.0	1.6	1.2	0.5

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

Personal Consumption Expenditures

Real personal consumption expenditures (PCE) posted a third consecutive below-average increase, 2.5 percent, in the second quarter (table 4 and chart 2).⁵ Decelerations in nondurable goods and durable goods more than offset a modest acceleration in services.

Expenditures for nondurable goods increased 0.4 percent after increasing 2.4 percent. Most of the deceleration was accounted for by downturns

in energy products and in food. Slowdowns in clothing and shoes and in "other" nondurable goods also contributed.

Expenditures for durable goods increased 7.1 percent after increasing 10.6 percent. Motor vehicles decelerated, primarily reflecting a downturn in new autos. In contrast, furniture and household equipment increased more than in the first quarter.

Expenditures for services increased 2.6 percent after increasing 1.8 percent. "Other" services accelerated, partly reflecting an upturn in brokerage

5. The average annual rate of growth for real PCE over the current expansion is 3.6 percent.

Table 4.—Real Personal Consumption Expenditures
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level					Change from preceding quarter			
	2001	2000		2001		2000		2001	
	II	III	IV	I	II	III	IV	I	II
Personal consumption expenditures	6,427.5	65.8	49.0	47.4	39.0	4.3	3.1	3.0	2.5
Durable goods	938.4	17.6	-4.7	23.0	16.0	8.2	-2.1	10.6	7.1
Motor vehicles and parts	362.0	8.3	-7.3	13.1	5.0	10.0	-8.1	16.1	5.7
Of which:									
New autos	104.6	-2.7	-1.2	4.1	-3.0	-9.7	-4.4	16.6	-10.7
New light trucks	123.2	6.4	-2.7	7.4	4.3	25.9	-9.2	29.5	15.1
Furniture and household equipment	400.6	6.4	2.5	7.2	9.6	7.0	2.7	7.7	10.1
Other ¹	179.5	2.8	1.1	2.1	2.0	6.8	2.4	5.0	4.6
Nondurable goods	1,879.9	19.2	2.7	11.2	1.9	4.2	0.6	2.4	0.4
Food	886.7	4.7	0.2	0.9	-0.6	2.1	0.1	0.4	-0.2
Clothing and shoes	344.1	6.5	0.1	2.8	1.4	7.9	0.2	3.3	1.7
Gasoline, fuel oil, and other energy goods	149.7	1.3	-0.6	1.7	-2.9	3.4	-1.7	4.7	-7.3
Other ²	501.6	7.3	3.0	5.9	4.3	6.2	2.5	4.9	3.6
Services	3,628.1	30.6	48.6	16.3	23.0	3.5	5.6	1.8	2.6
Housing	864.9	3.8	4.7	4.7	3.6	1.8	2.2	2.2	1.7
Household operation	387.5	4.2	13.6	-1.1	-4.8	4.4	15.1	-1.0	-4.8
Electricity and gas	134.9	-1.1	8.6	-4.3	-5.2	-3.2	27.8	-11.2	-14.1
Other household operation	253.3	5.3	4.8	3.6	1.0	9.2	8.1	6.0	1.5
Transportation	254.2	1.1	2.1	0.6	-0.2	1.7	3.4	1.0	-0.4
Medical care	931.1	5.2	8.1	6.6	9.5	2.3	3.6	2.9	4.2
Recreation	232.8	0.3	1.3	3.7	0.6	0.4	2.4	6.5	1.0
Other ³	956.6	16.1	19.2	1.5	13.8	7.3	8.6	0.6	6.0

1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

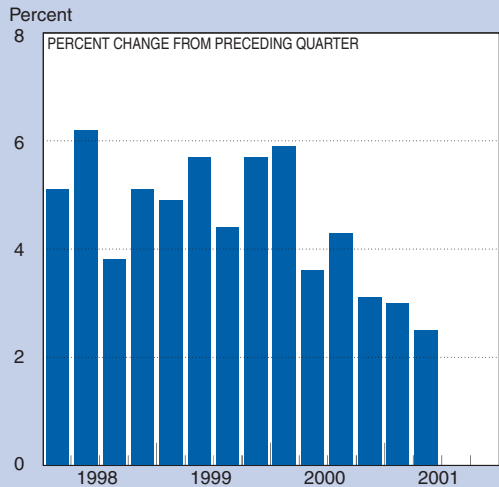
and investment counseling. Spending for medical care services stepped up.

Some of the factors frequently considered in the analysis of consumer spending continued becoming less favorable (chart 3). The unemployment rate increased to 4.5 percent, the highest rate since

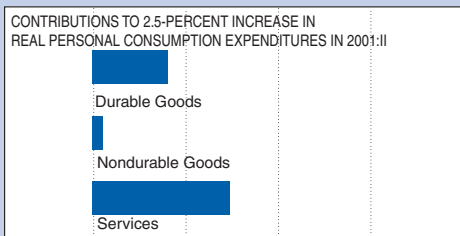
1998. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Center) decreased for the fifth consecutive quarter. Real disposable personal income increased slightly less than in the first quarter.

CHART 2

Real Personal Consumption Expenditures



Based on Seasonally Adjusted Annual Rates

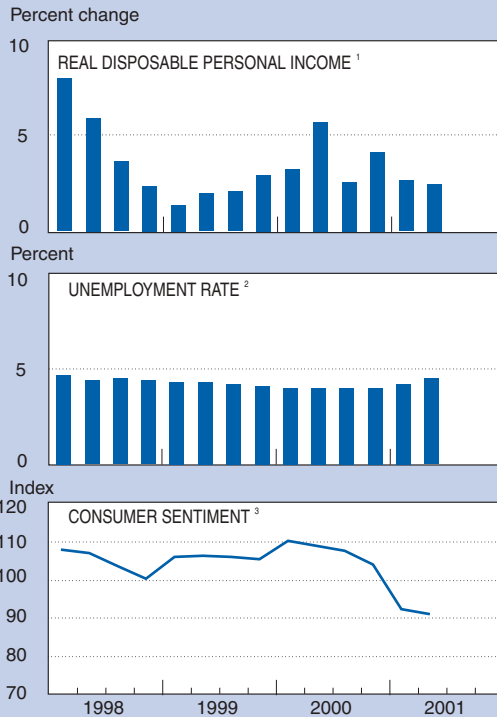


Percentage points at an annual rate

U.S. Bureau of Economic Analysis

CHART 3

Selected Factors Affecting Consumer Spending



1. Based on seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted. Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center

U.S. Bureau of Economic Analysis

Private Fixed Investment

In the second quarter, real private fixed investment decreased for the first time in 6 years (table 5 and chart 4). Nonresidential investment dropped after changing little; residential investment increased less than in the first quarter.

Nonresidential fixed investment.—Real private nonresidential fixed investment decreased 14.6 percent after slipping 0.2 percent. Before the first-quarter decrease, nonresidential fixed investment had increased for 35 consecutive quarters.

Spending on equipment and software decreased much more than in the first quarter. Information processing equipment and software fell sharply; computers fell dramatically after a modest decrease, and communications equipment dropped sharply for the second straight quarter. Industrial

equipment turned down, its first decrease in more than 2 years and its largest since 1975. Transportation equipment decreased after increasing; motor vehicles contributed to the downturn.

Spending on structures turned down. Commercial buildings, industrial buildings, and public utilities all decreased in the second quarter after increasing in the first.

The investment climate has generally been unfavorable in recent quarters. In the last four quarters, domestic corporate profits and capacity utilization has decreased steadily, and real final sales of domestic product has faltered.⁶ Long-term interest rates have trended down, but only modestly; for example, the yield on high-grade corpo-

6. The growth of real final sales averaged 2.3 percent over the last four quarters, compared with 3.5 percent over the earlier part of the current expansion.

Table 5.—Real Private Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Change from preceding quarter								
	2001	2000		2001		2000	2001		
	II	III	IV	I	II	III	IV	I	II
Private fixed investment	1,695.9	10.9	2.0	8.2	-44.4	2.5	0.5	1.9	-9.8
Nonresidential	1,320.6	23.4	3.4	-0.6	-53.3	7.1	1.0	-0.2	-14.6
Structures	281.4	9.7	5.1	8.4	-10.3	15.2	7.6	12.3	-13.4
Nonresidential buildings, including farm	190.4	3.5	1.6	2.9	-11.6	7.6	3.2	5.9	-21.1
Utilities	55.1	2.6	4.5	2.6	-1.0	24.3	42.7	20.6	-7.0
Mining exploration, shafts, and wells	30.6	2.8	-0.5	3.5	2.3	60.6	-7.5	68.1	37.5
Other structures	6.0	0.8	-0.1	-0.7	-0.3	61.2	-6.3	-33.1	-19.2
Equipment and software	1,044.1	12.7	-3.0	-11.6	-43.6	4.7	-1.1	-4.1	-15.1
Information processing equipment and software	588.0	19.5	20.8	-20.9	-32.9	13.6	14.1	-12.4	-19.6
Computers and peripheral equipment¹	287.5	20.7	12.4	-3.2	-26.9	32.5	17.1	-3.9	-30.1
Software²	191.0	6.2	6.3	-3.1	-1.9	14.1	14.0	-6.3	-3.8
Other	165.8	1.2	5.5	-12.4	-15.0	2.5	12.2	-23.3	-29.3
Industrial equipment	161.0	4.6	0.5	5.1	-9.7	12.0	1.4	12.9	-21.0
Transportation equipment	175.4	-7.6	-17.0	1.2	-2.0	-14.2	-30.8	2.8	-4.4
Of which: Motor vehicles	141.0	-5.2	-16.7	2.0	-0.8	-12.3	-36.3	5.7	-2.2
Other	141.2	-0.6	-1.7	-1.1	-2.1	-1.6	-4.7	-3.0	-5.7
Residential	378.1	-10.2	-1.0	7.6	5.2	-10.4	-1.1	8.5	5.8
Structures	368.5	-10.2	-1.0	7.5	5.2	-10.6	-1.2	8.7	5.8
Single-family	192.9	-8.8	-1.2	6.1	1.8	-16.8	-2.6	13.9	3.7
Multifamily	23.8	-2.0	0.7	1.1	0.5	-29.5	13.8	20.2	10.0
Other structures³	151.8	0.8	-0.6	0.3	2.8	2.1	-1.5	0.6	8.0
Equipment	9.7	0	0	0.1	0	0.8	2.1	0.7	2.8

1. Includes new computers and peripheral equipment only.

2. Excludes software "embedded," or bundled, in computers and other equipment.

3. Includes home improvements, new manufactured home sales, brokers' commissions on home sales, net purchases of used structures, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

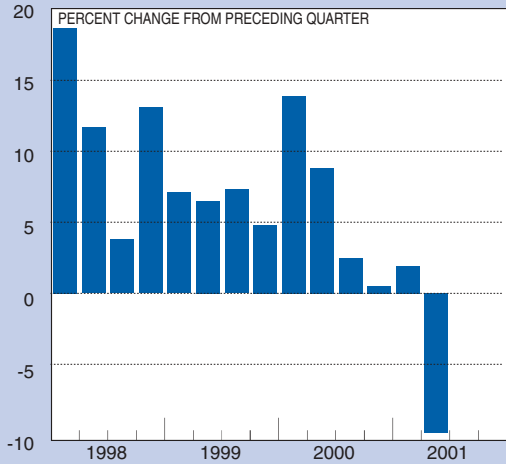
rate bonds decreased from 7.75 percent in June 2000 to 7.11 percent in June 2001 (chart 5).

Residential investment.—Real private residential investment increased 5.8 percent after increasing 8.5 percent (table 5 and chart 4). Both single-family structures and multifamily structures slowed. In contrast, “other” structures increased more

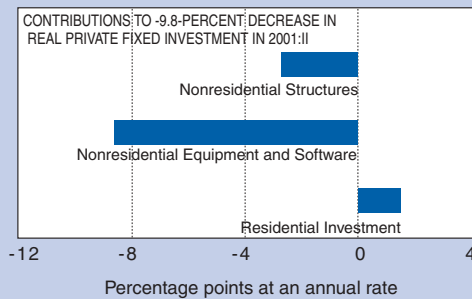
than in the first quarter, mainly reflecting brokers’ commissions on home sales.

CHART 4
Real Private Fixed Investment

Percent



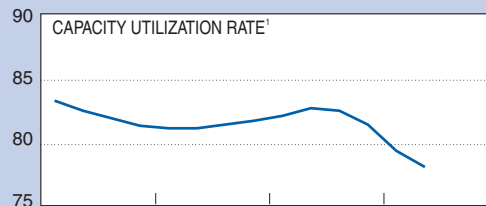
Based on Seasonally Adjusted Annual Rates



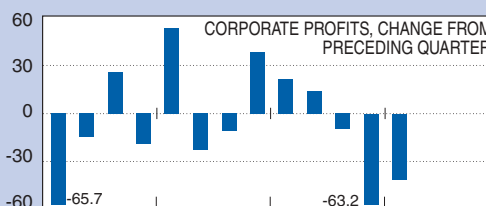
U.S. Bureau of Economic Analysis

CHART 5
Selected Factors Affecting Nonresidential Investment

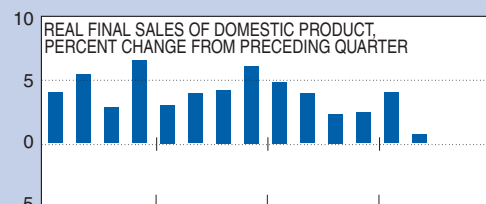
Percent



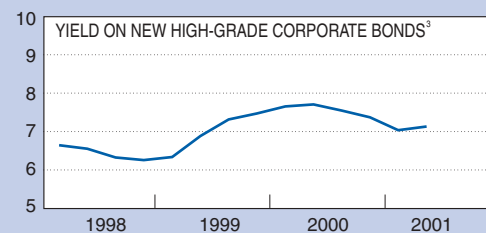
Billion \$



Percent



Percent



1. All industries. Data: Federal Reserve Board

2. Domestic industries.

3. Data: U.S. Treasury Department

U.S. Bureau of Economic Analysis

Inventory Investment

Real inventory investment (that is, change in private inventories) was -\$38.4 billion in the second quarter and -\$27.1 billion in the first (table 6 and chart 6). Back-to-back declines in the stock of inventories last occurred in 1991. Inventories were much less of a drag on GDP growth in the second quarter, however, because the \$11.3 billion decrease in inventory investment followed a \$69.9 billion first-quarter decrease as liquidation replaced accumulation.

The second-quarter decrease in inventory investment was dominated by manufacturing inventories, which decreased \$35.5 billion after decreasing \$15.0 billion. Inventories of durable-goods manufacturers decreased considerably more than in the first quarter; inventories of computers, machinery, and electronic products and of electrical equipment, appliances, and components turned down, and inventories of fabricated metal products decreased more than in the first quarter.

Table 6.—Real Change in Private Inventories

[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	2000			2001		2000		2001	
	II	III	IV	I	II	III	IV	I	II
Change in private inventories	78.9	51.7	42.8	-27.1	-38.4	-27.2	-8.9	-69.9	-11.3
Farm	3.7	-5.4	3.0	0.2	-2.3	-9.1	8.4	-2.8	-2.5
Construction, mining, and utilities	-3.1	0.1	-6.8	1.9	4.4	3.2	-6.9	8.7	2.5
Manufacturing	22.0	12.0	12.9	-15.0	-35.5	-10.0	0.9	-27.9	-20.5
Durable goods industries	18.6	10.8	17.9	-10.5	-26.0	-7.8	7.1	-28.4	-15.5
Nondurable goods industries	3.5	1.3	-4.4	-4.5	-9.5	-2.2	-5.7	-0.1	-5.0
Wholesale trade	27.9	18.2	12.5	-3.0	4.7	-9.7	-5.7	-15.5	7.7
Durable goods industries	21.8	10.2	5.5	-3.7	-10.0	-11.6	-4.7	-9.2	-6.3
Nondurable goods industries	6.4	8.0	6.8	0.6	13.3	1.6	-1.2	-6.2	12.7
Retail trade	22.9	18.7	19.3	-15.3	-13.1	-4.2	0.6	-34.6	2.2
Of which: Motor vehicle dealers	11.0	10.4	8.4	-19.6	-5.5	-0.6	-2.0	-28.0	14.1
Other industries ¹	5.8	7.7	2.8	3.6	1.7	1.9	-4.9	0.8	-1.9
Addenda:									
Motor vehicles	14.2	4.1	6.4	-22.6	-8.6	-10.1	2.3	-29.0	14.0
Autos	2.2	6.7	2.5	-9.5	-4.6	4.5	-4.2	-12.0	4.9
Trucks	10.7	-1.9	3.6	-12.1	-3.8	-12.6	5.5	-15.7	8.3

1. Includes inventories held by establishments in the following industries: Transportation; communication; finance, insurance, and real estate; and services.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11B and 8.9B (motor vehicles).

In contrast, inventories of transportation equipment decreased much less than in the first quarter.

Inventories of nondurable-goods manufacturers decreased more than in the first quarter, mainly reflecting a downturn in inventories of chemicals and chemical products.

Wholesale trade inventories increased \$4.7 billion after decreasing \$3.0 billion. Inventories of

nondurable goods increased considerably more than in the first quarter, mainly reflecting an upturn in inventories of farm products and a step-up in inventories of drugs and sundries. Inventories of durable goods decreased more than in the first quarter, largely reflecting a downturn in electrical goods.

Retail trade inventories decreased \$13.1 billion after decreasing \$15.3 billion. Inventories of motor vehicle dealers decreased considerably less than in the first quarter; other retail inventories decreased after increasing.

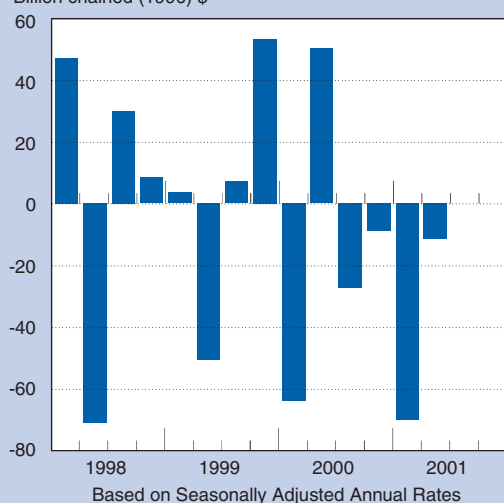
Farm inventories decreased \$2.3 billion after increasing \$0.2 billion. Crop inventories decreased more than in the first quarter, and livestock inventories decreased after increasing.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.67 from 3.68 (see NIPA table 5.13). A ratio that includes all final sales of domestic businesses decreased to 2.08 from 2.09.⁷ For both ratios, these are the lowest levels in the current expansion.

CHART 6

**Real Private Inventory Investment:
Change from Preceding Quarter**

Billion chained (1996) \$



U.S. Bureau of Economic Analysis

7. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

Exports and Imports

Both exports and imports declined for the third consecutive quarter—exports after 6 consecutive increases, and imports after 38 increases.

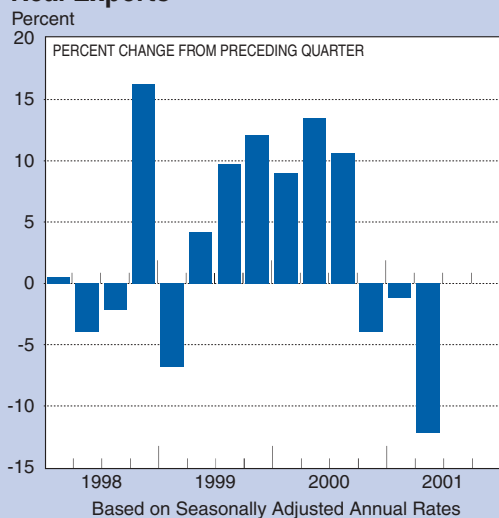
Real exports of goods decreased much more than in the first quarter (table 7 and chart 7). Non-automotive capital goods turned down, reflecting sharper declines in “other” nonautomotive capital goods and in computers and peripheral equipment

as well as a downturn in civilian aircraft. Nonautomotive consumer goods and foods, feeds, and beverages also turned down. In contrast, automotive goods turned up.

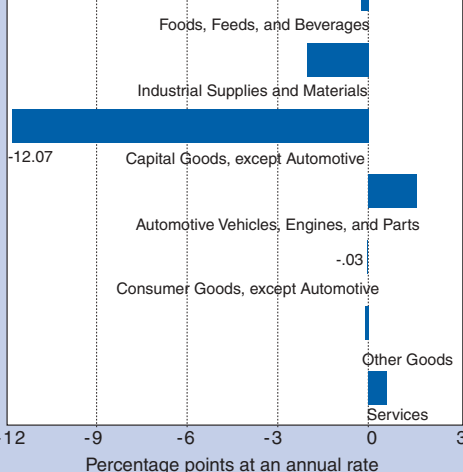
Exports of services again increased a little. Modest increases in passenger fares, in transfers under U.S. military agency sales contracts, and in royal-

CHART 7

Real Exports



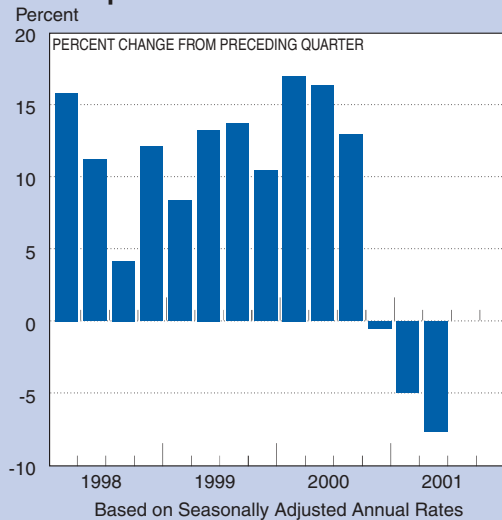
CONTRIBUTIONS TO -12.2-PERCENT DECREASE IN REAL EXPORTS IN 2001:II



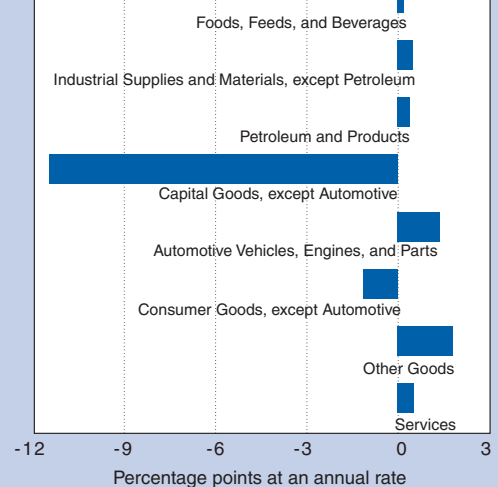
U.S. Bureau of Economic Analysis

CHART 8

Real Imports



CONTRIBUTIONS TO -7.7-PERCENT DECREASE IN REAL IMPORTS IN 2001:II



U.S. Bureau of Economic Analysis

ties and license fees were largely offset by declines in “other” services and in “other” transportation.

Real imports of goods decreased more than in the first quarter (chart 8). A steeper decline in nonautomotive capital goods (and also in nonautomotive consumer goods) more than offset upturns in “other” goods and in automotive goods.

Petroleum and products increased less than in the first quarter.

Imports of services increased less than in the first quarter. “Other private services” slowed, and “other” transportation decreased more than in the first quarter. In contrast, passenger fares and travel turned up.

Table 7.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Change from preceding quarter								
	Level								
	2001	2000		2001		2000		2001	
	II	III	IV	I	II	III	IV	I	II
Exports of goods and services	1,107.4	28.7	-11.8	-3.4	-36.7	10.6	-4.0	-1.2	-12.2
Exports of goods ¹	805.0	35.6	-15.3	-5.1	-39.4	18.3	-6.9	-2.4	-17.4
Foods, feeds, and beverages.....	61.2	4.5	-3.2	2.3	-0.9	35.1	-18.8	15.9	-5.8
Industrial supplies and materials.....	162.7	7.9	-0.5	-3.4	-6.0	20.8	-1.1	-7.8	-13.5
Capital goods, except automotive.....	367.4	17.6	-9.3	0.9	-37.8	19.0	-8.7	0.8	-32.4
Automotive vehicles, engines, and parts.....	74.2	-0.1	-3.2	-5.4	4.2	-0.5	-15.7	-25.6	26.5
Consumer goods, except automotive.....	93.3	2.0	-1.5	3.4	-0.2	9.3	-6.2	16.1	-1.0
Other.....	46.7	4.2	1.9	-1.9	-0.4	45.7	17.0	-14.5	-3.0
Exports of services ¹	303.0	-5.1	2.7	1.3	1.2	-6.7	3.7	1.8	1.6
Imports of goods and services	1,517.9	47.2	-2.1	-19.9	-30.7	13.0	-0.5	-5.0	-7.7
Imports of goods ¹	1,289.7	38.4	-2.1	-23.1	-33.1	12.3	-0.6	-6.7	-9.7
Foods, feeds, and beverages.....	50.6	1.6	-0.2	-0.7	0.9	13.4	-1.2	-5.4	6.8
Industrial supplies and materials, except petroleum and products.....	166.7	1.6	-2.2	-2.2	1.7	3.9	-5.1	-5.1	4.1
Petroleum and products.....	92.5	-1.1	-1.8	5.4	1.2	-4.9	-7.7	27.1	5.3
Capital goods, except automotive.....	400.1	19.7	2.4	-13.5	-56.5	18.9	2.1	-11.0	-41.1
Automotive vehicles, engines, and parts.....	188.4	2.1	-5.2	-6.1	5.0	4.5	-10.4	-12.1	11.3
Consumer goods, except automotive.....	300.9	6.6	7.5	-0.8	-4.5	9.4	10.5	-1.1	-5.8
Other.....	84.3	11.1	-0.5	-9.0	6.7	72.9	-2.2	-35.5	38.9
Imports of services ¹	229.2	8.7	0.1	2.7	1.8	17.1	0	4.9	3.3

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

Government Spending

Government spending increased 5.4 percent in the second quarter, about the same as in the first. Federal Government spending increased less than in the first quarter, and State and local government spending increased more (table 8 and chart 9).

Federal defense spending slowed, reflecting a slowdown in consumption spending, especially for services. Investment turned up, reflecting an upturn in equipment and software.

Federal nondefense spending changed little after decreasing. Consumption spending, especially for services other than compensation of employees, turned up. Investment, especially for structures, turned down.

The pickup in State and local government spending was due to investment in structures. Consumption spending increased less than in the first quarter, reflecting a slowdown in compensation of employees.

CHART 9

Real Government Consumption and Investment

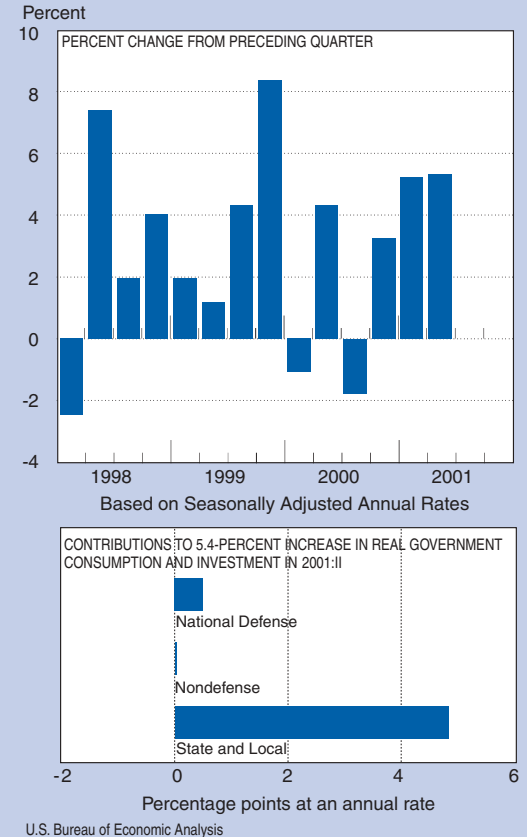


Table 8.—Real Government Consumption Expenditures and Gross Investment
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2001	2000		2001		2000		2001	
	II	III	IV	I	II	III	IV	I	II
Government consumption expenditures and gross investment¹	1,624.5	-7.2	12.8	20.6	21.1	-1.8	3.3	5.3	5.4
Federal	554.2	-15.1	6.1	4.3	2.0	-10.4	4.6	3.2	1.5
National defense	362.3	-9.7	8.7	6.5	2.0	-10.4	10.5	7.5	2.2
Consumption expenditures	304.5	-7.6	3.0	8.4	0.1	-9.8	4.2	11.8	0.2
Gross investment	58.2	-2.1	6.2	-2.3	2.1	-14.5	56.4	-14.6	15.7
Nondefense	191.9	-5.5	-2.5	-2.2	0.1	-10.4	-5.1	-4.3	0.1
Consumption expenditures	149.6	-3.5	-2.9	-2.3	0.1	-8.7	-7.3	-5.9	0.4
Gross investment	42.8	-2.0	0.4	0.3	-0.1	-16.9	4.6	2.1	-0.7
State and local	1,069.3	7.5	6.7	16.2	18.8	3.0	2.7	6.4	7.4
Consumption expenditures	847.0	6.3	5.9	8.6	7.9	3.1	2.9	4.2	3.8
Gross investment	222.9	1.3	0.8	7.7	11.3	2.6	1.6	16.1	23.1

1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

Prices

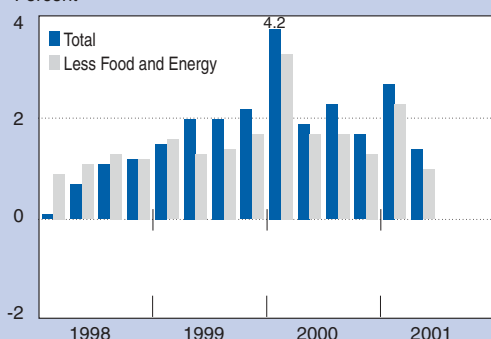
The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 1.4 percent in the second quarter, about half as much as in the first quarter (table 9 chart 10). Prices of gross domestic purchases less food and energy posted a similar slowdown, from 2.3 percent to 1.0 percent. The slowdowns mainly reflected decelerations in the prices of PCE and government spending. In contrast, prices of nonresidential fixed investment decreased less than in the first quarter.

The deceleration in PCE prices was widespread; prices of energy, food, and medical care services slowed, and prices of motor vehicles turned down. Prices paid by the Federal Government slowed sharply after a first-quarter increase that reflected a pay raise for civilian and military personnel.⁸

CHART 10

Gross Domestic Purchases Prices: Change From Preceding Quarter

Percent



Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1996=100).

U.S. Bureau of Economic Analysis

The smaller second-quarter decrease in prices of private nonresidential fixed investment reflected smaller second-quarter declines in prices of computers and peripheral equipment and of transportation equipment.

8. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

Table 9.—Percent Changes in Prices

[Annual rates; based on seasonally adjusted index numbers (1996=100)]

	2000		2001	
	III	IV	I	II
Gross domestic product	1.9	1.8	3.3	2.2
Less: Exports of goods and services	1.3	0.5	-0.1	-0.8
Plus: Imports of goods and services	4.4	0.4	-3.0	-5.9
Equals: Gross domestic purchases	2.3	1.7	2.7	1.4
Less: Change in private inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	2.3	1.8	2.6	1.4
Personal consumption expenditures	2.4	2.0	3.2	1.6
Durable goods	-2.2	-1.2	-0.7	-3.5
Nondurable goods	2.7	2.0	1.9	2.7
Services	3.2	2.6	4.7	2.1
Private fixed investment	1.9	0.8	-0.4	0.1
Nonresidential	1.3	0	-1.9	-0.5
Structures	4.7	4.7	6.2	3.7
Equipment and software	0.2	-1.5	-4.6	-1.9
Residential	3.7	3.5	4.6	1.9
Government consumption expenditures and gross investment	2.6	1.9	3.5	1.8
Federal	1.7	0.4	4.4	1.4
National defense	2.2	1.0	3.6	1.1
Nondefense	0.6	-0.7	5.8	2.1
State and local	3.1	2.7	3.0	2.0
Addenda:				
Gross domestic purchases:				
Food	3.6	1.6	4.1	2.6
Energy	13.8	11.3	9.3	6.2
Less food and energy	1.7	1.3	2.3	1.0
Personal consumption expenditures:				
Food	3.7	1.6	4.0	2.6
Energy goods and services ¹	11.7	10.5	11.7	9.3
Less food and energy	1.6	1.5	2.6	0.9

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE.—Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

Revisions

The preliminary estimate of a 0.2-percent increase in real GDP in the second quarter is 0.5 percentage point less than the advance estimate (table 10). This revision is equal to the average revision, without regard to sign, from the advance estimate to the preliminary estimate in the past 20 years.

The major contributors to the second-quarter revision were change in private inventories (–0.46 percentage point) and exports of goods (–0.33 percentage point). The negative contributions of these components were partly offset by the positive contributions of a downward revision to imports of goods (0.19 percentage point) and an upward revision to PCE for services (0.14 percentage point).

The downward revision to private inventory investment was mainly accounted for by manufac-

turing inventories and reflected the incorporation of newly available Census Bureau data on inventories for June and revised data for May.

The revisions to exports and imports of goods were largely to nonautomotive consumer goods and to “other” nonautomotive capital goods. The revisions mainly reflected the incorporation of newly available Census Bureau data on trade in goods for June.

The upward revision to PCE for services was mainly to medical care services, reflecting revisions to producer price indexes from the Bureau of Labor Statistics, and to foreign travel, reflecting newly available data from BEA’s international transactions accounts.

Table 10.—Revisions to Change in Real Gross Domestic Product and Prices,
Second Quarter 2001
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	0.7	0.2	–0.5	–13.2
Less: Exports	–9.9	–12.2	–2.3	–7.2
Goods	–13.7	–17.4	–3.7	–8.9
Services	–0.1	1.6	1.7	1.3
Plus: Imports	–6.7	–7.7	–1	–4.1
Goods	–8.2	–9.7	–1.5	–5.3
Services	1.4	3.3	1.9	1
Equals: Gross domestic purchases	0.8	0.4	–0.4	–10.4
Less: Change in private inventories .....	.....	.....	.....	–11.5
Equals: Final sales to domestic purchasers	0.9	0.8	–0.1	–0.5
Personal consumption expenditures	2.1	2.5	0.4	5
Durable goods	6	7.1	1.1	2.5
Nondurable goods	0.4	0.4	0	–0.2
Services	2.2	2.6	0.4	2.9
Fixed investment	–8.7	–9.8	–1.1	–5.4
Nonresidential	–13.6	–14.6	–1	–3.9
Structures	–11.2	–13.4	–2.2	–1.7
Equipment and software	–14.5	–15.1	–0.6	–1.9
Residential	7.4	5.8	–1.6	–1.5
Government consumption expenditures and gross investment	5.5	5.4	–0.1	–0.5
Federal	1.6	1.5	–0.1	–0.2
National defense	1.9	2.2	0.3	0.3
Nondefense	0.9	0.1	–0.8	–0.4
State and local	7.5	7.4	–0.1	–0.4
Addenda:				
Final sales of domestic product	0.7	0.6	–0.1	–3.3
Gross domestic purchases price index	1.5	1.4	–0.1	.....
GDP price index	2.3	2.2	–0.1	.....

NOTE.—The preliminary estimates for the second quarter of 2001 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for May and June (revised), consumers’ share of new-car purchases for June, average unit value for domestic new autos for June (revised), and consumers’ share of new-truck purchases for June.

Nonresidential fixed investment: Construction put-in-place for April and May (revised) and June, manufacturers’ shipments of machinery and equipment for May and June (revised), manufacturers’ shipments of complete civilian aircraft for April and May (revised) and June, and exports and imports of machinery and equipment for May (revised) and June.

Residential fixed investment: Construction put-in-place for April and May (revised) and June.

Change in private inventories: Manufacturing and trade inventories for May (revised) and June.

Exports and imports of goods and services: Exports and imports of goods for May (revised) and June.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for June, Department of Defense detailed financial reports for the second quarter, and State and local government construction put-in-place for April and May (revised) and June.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for May and June (revised).

GDP prices: Detailed merchandise export and import price indexes for April through June (revised), unit-value index for petroleum imports for May (revised) and June, and housing prices for the second quarter.

Corporate Profits

Corporate profits decreased again in the second quarter. The current production measure decreased \$28.5 billion (or 3.6 percent at a quarterly rate)—about half as much as in the first quarter and after a \$47.4 billion drop in the fourth quarter of 2000 (table 11).⁹

Domestic corporate profits were reduced about \$14 billion by the effects of Tropical Storm Allison and other severe storms. Excluding the storm-related losses, profits from current production decreased 1.8 percent (quarterly rate).

Profits of domestic financial corporations decreased \$4.6 billion (2.5 percent). These profits were reduced by about \$13 billion by the payment of storm-related insurance benefits.

Profits of domestic nonfinancial corporations decreased \$21.1 billion (4.5 percent). Unit profits of these corporations fell, as unit labor costs increased again after large increases in the first and fourth quarters; unit nonlabor costs also increased in these three quarters. The real output of domestic nonfinancial corporations changed little in the second quarter.¹⁰ Profits of domestic nonfinancial

corporations were reduced about \$1 billion by uninsured losses associated with the storms.

A drop in rest-of-world profits reflected lower receipts from foreign affiliates of U.S. corporations. Payments of earnings by U.S. affiliates of foreign corporations decreased.¹¹

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$10.7 billion after decreasing \$35.1 billion in the first quarter and \$23.2 billion in the fourth.¹² Despite the drop in cash flow, the ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased from 69.5 percent to 71.6 percent. During 1991–99, the ratio fluctuated between 72 percent and 94 percent; it averaged 84 percent.

10. Output is defined here as real gross product of nonfinancial corporate business. It is a measure of the contribution, or value added, of nonfinancial corporations to the Nation's output and is measured as the sum of incomes generated by these businesses.

11. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

12. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

Table 11.—Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter							
	2001	2000	2001	2001	2001	2000	2001	2001	2001
	II	III	IV	I	II	III	IV	I	II
Profits from current production	761.3	2.2	-47.4	-57.8	-28.5	0.3	-5.3	-6.8	-3.6
Domestic industries.....	624.1	-9.8	-63.2	-41.1	-25.6	-1.3	-8.4	-5.9	-4.0
Financial.....	180.3	1.0	0.3	-2.6	-4.6	0.5	0.2	-1.3	-2.5
Nonfinancial.....	443.7	-10.8	-63.4	-38.6	-21.1	-1.9	-11.2	-7.7	-4.5
Rest of the world.....	137.2	12.1	15.8	-16.8	-2.8	9.3	11.2	-10.7	-2.0
Receipts (inflows).....	194.1	-3.0	5.4	-9.4	-6.9	-1.4	2.6	-4.5	-3.4
Payments (outflows).....	56.8	-15.0	-10.4	7.4	-4.2	-19.1	-16.2	13.7	-6.8
IVA.....	-9.7	11.2	-3.7	5.4	-7.8	.....	.....	.....	.....
CCAdj.....	31.6	-5.1	-2.0	-2.4	-4.4	.....	.....	.....	.....
Profits before tax.....	739.4	-3.7	-41.8	-60.8	-16.3	-0.4	-4.9	-7.4	-2.2
Profits tax liability.....	231.0	-5.5	-21.4	-16.7	-5.8	-2.0	-7.8	-6.6	-2.5
Profits after tax.....	508.4	1.8	-20.4	-44.1	-10.5	0.3	-3.5	-7.8	-2.0
Cash flow from current production	900.9	12.1	-23.2	-35.1	-10.7	1.3	-2.4	-3.7	-1.2
Domestic industry profits:									
Corporate profits of domestic industries with IVA.....	592.5	-4.7	-61.2	-38.6	-21.3	-0.6	-8.6	-5.9	-3.5
Financial.....	198.2	2.8	1.3	-2.2	-4.0	1.4	0.7	-1.1	-2.0
Nonfinancial.....	394.3	-7.4	-62.6	-36.4	-17.3	-1.4	-12.3	-8.1	-4.2
Dollars									
Unit price, costs, and profits of nonfinancial corporations:									
Unit price.....	1.044	0.002	0.002	0.004	0.006	.....	.....	.....	.....
Unit labor cost.....	0.704	0.004	0.013	0.009	0.006	.....	.....	.....	.....
Unit nonlabor cost.....	0.256	0	0.001	0.004	0.003	.....	.....	.....	.....
Unit profits from current production.....	0.084	-0.003	-0.013	-0.007	-0.004	.....	.....	.....	.....

NOTE.—Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

Domestic industry profits and related measures.—Domestic industry profits decreased \$21.3 billion after dropping \$38.6 billion in the first quarter and \$61.2 billion in the fourth.¹³ The largest second-quarter decreases were in durable-goods manufacturing, in the transportation and public utilities group, and in financial corporations, especially insurance.

Profits before tax decreased less than profits from current production. The difference between

13. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

the two measures reflected decreases in both the inventory valuation adjustment and the capital consumption adjustment.¹⁴

14. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPAs, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at current cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For information on depreciation in the NIPAs, see Arnold J. Katz and Shelby W. Herman, "Improved Estimates of Fixed Reproducible Tangible Wealth, 1929-95," *SURVEY OF CURRENT BUSINESS* 77 (May 1997): 69-92.

Government Sector

The combined current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government—decreased \$16.9 billion, to \$210.7 billion, in the second quarter after decreasing \$23.6 billion in the first (table 12).¹⁵ Both the Federal current surplus and the State and local government current surplus decreased less in the second quarter than in the first.

Federal

The Federal Government current surplus decreased \$16.0 billion, to \$189.3 billion, in the second quarter after decreasing \$17.2 billion in the first. Both current receipts and current expenditures decelerated.

15. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of gross saving, CFC, and net saving are shown in NIPA table 5.1. For NIPA estimates of government current receipts, current expenditures, and the current surplus or deficit for 1999 and 2000, see NIPA tables 3.1, 3.2, and 3.3 in this issue.

Current receipts.—Federal current receipts increased \$5.3 billion in the second quarter after increasing \$9.9 billion in the first. The deceleration was more than accounted for by decelerations in contributions for social insurance and in personal tax and nontax receipts. These decelerations were partly offset by a smaller decrease in corporate profits tax accruals in the second quarter than in the first.

Contributions for social insurance increased \$3.3 billion after increasing \$13.9 billion. The deceleration primarily reflected a deceleration in contributions for social security (old-age, survivors, disability, and health insurance), which increased \$3.6 billion after increasing \$13.2 billion. In the first quarter, contributions for social insurance were boosted \$4.8 billion by an increase in the social security taxable wage base.

Personal tax and nontax receipts increased \$8.2 billion after increasing \$10.9 billion. The deceleration was more than accounted for by income taxes, which increased \$8.3 billion after increasing \$11.1

billion; first-quarter tax receipts were boosted \$5.1 billion (net) by estimated annual levels of final settlements, refunds, and back taxes.

Corporate profits tax accruals decreased \$5.2 billion after decreasing \$14.4 billion, reflecting the smaller decrease in domestic corporate profits before tax.

Current expenditures.—Current expenditures increased \$21.3 billion in the second quarter after increasing \$27.1 billion in the first. Consumption expenditures increased less than in the first quarter, and net interest paid decreased more than in the first quarter. In contrast, “subsidies less current surplus of government enterprises” turned up, and grants-in-aid to State and local governments and “transfer payments (net)” accelerated.

Consumption expenditures increased \$2.3 billion after increasing \$13.4 billion. The deceleration was more than accounted for by a deceleration in defense consumption expenditures.

Defense consumption expenditures increased \$1.2 billion after increasing \$13.0 billion. The deceleration was more than accounted for by services, which decreased \$1.3 billion after increasing \$13.7 billion. Within services, “other services”—which includes spending for research and development, personnel support, and installation support—decreased \$2.1 billion after increasing \$10.9 billion. Also within services, compensation of employees increased \$0.5 billion after increasing \$3.0 billion; first-quarter compensation was boosted \$3.6 billion by a pay raise in January 2001.

Net interest paid decreased \$11.3 billion after decreasing \$6.4 billion. Gross interest paid decreased \$10.9 billion after decreasing \$5.6 billion, reflecting larger decreases in interest paid to persons and business.

“Subsidies less current surplus of government enterprises” increased \$2.3 billion after decreasing \$2.7 billion. The upturn was accounted for by a downturn in the Postal Service current surplus and by a smaller decrease in agricultural subsidies. The Postal Service current surplus decreased \$2.0 billion after increasing \$1.0 billion; the first-quarter surplus had been boosted \$2.1 billion by a postal rate increase that was effective on January 7, 2001. Agricultural subsidies decreased \$0.3 billion after decreasing \$2.7 billion; the smaller decrease reflected the pattern of the newly authorized emergency agricultural subsidies.

Grants-in-aid to State and local governments increased \$17.2 billion after increasing \$13.9 billion. The acceleration was accounted for by grants

for health and hospitals, which includes payments to States for the children's health insurance program.

“Transfer payments (net)” increased \$10.8 billion after increasing \$8.8 billion. The acceleration was more than accounted for by transfer payments to the rest of the world, which increased \$1.3 billion after decreasing \$19.7 billion; the first-quarter decrease followed a large fourth-quarter increase that included the annual payment of \$3.2 billion

Table 12.—Government Sector Current Receipts and Expenditures
(Billions of dollars, seasonally adjusted at annual rates)

	Level	Change from preceding quarter			
	2001	2000		2001	
	II	III	IV	I	II
Current receipts.....	3,105.7	33.9	26.2	22.9	8.9
Current expenditures.....	2,895.0	13.0	39.7	46.5	25.8
Current surplus or deficit (–).....	210.7	20.9	–13.5	–23.6	–16.9
Social insurance funds.....	113.7	7.0	5.1	–8.4	–2.0
Other.....	97.0	13.9	–18.7	–15.1	–14.9
Federal Government					
Current receipts.....	2,092.7	21.8	13.2	9.9	5.3
Personal tax and nontax receipts.....	1,059.6	18.7	20.7	10.9	8.2
Corporate profits tax accruals.....	199.8	–4.7	–18.2	–14.4	–5.2
Indirect business tax and nontax accruals.....	111.1	.4	.8	–.5	–1.1
Contributions for social insurance.....	722.1	7.4	9.9	13.9	3.3
Current expenditures.....	1,903.4	1.0	20.6	27.1	21.3
Consumption expenditures.....	509.8	–10.2	.5	13.4	2.3
National defense.....	339.5	–6.4	4.3	13.0	1.2
Nondefense.....	170.3	–3.9	–3.7	.4	1.1
Transfer payments (net).....	822.5	5.4	22.4	8.8	10.8
To persons.....	815.4	3.5	8.7	28.4	9.6
To the rest of the world.....	7.1	1.9	13.7	–19.7	1.3
Grants-in-aid to State and local governments.....	281.2	6.7	–.8	13.9	17.2
Net interest paid.....	242.2	–1.5	–3.0	–6.4	–11.3
Subsidies less current surplus of government enterprises.....	47.7	.5	1.6	–2.7	2.3
Subsidies.....	40.0	–1.0	–1.4	–2.1	.1
Of which: Agricultural subsidies.....	18.1	–1.0	–1.6	–2.7	–.3
Less: Current surplus of government enterprises.....	–7.7	–1.6	–3.0	.5	–2.1
Less: Wage accruals less disbursements.....	0	0	0	0	0
Current surplus or deficit (–).....	189.3	20.8	–7.4	–17.2	–16.0
Social insurance funds.....	113.9	7.1	5.2	–8.6	–2.1
Other.....	75.4	13.7	–12.6	–8.6	–13.9
State and local governments					
Current receipts.....	1,294.2	18.8	12.1	27.0	20.8
Personal tax and nontax receipts.....	291.4	4.2	8.9	4.5	–2.4
Corporate profits tax accruals.....	31.1	–.9	–3.2	–2.3	–.7
Indirect business tax and nontax accruals.....	679.9	8.9	7.2	10.6	6.4
Contributions for social insurance.....	10.6	0	.1	.2	.3
Federal grants-in-aid.....	281.2	6.7	–.8	13.9	17.2
Current expenditures.....	1,272.7	18.7	18.3	33.3	21.6
Consumption expenditures.....	981.2	14.3	13.4	16.7	14.5
Transfer payments to persons.....	288.3	4.4	5.1	5.1	5.4
Net interest paid.....	–.9	.2	0	–.3	–.4
Less: Dividends received by government.....	.4	0	0	0	0
Subsidies less current surplus of government enterprises.....	4.6	–.1	–.2	11.8	2.2
Subsidies.....	15.1	0	0	12.2	2.5
Less: Current surplus of government enterprises.....	10.5	.1	.3	.3	.3
Less: Wage accruals less disbursements.....	0	0	0	0	0
Current surplus or deficit (–).....	21.5	.1	–6.2	–6.3	–.8
Social insurance funds.....	–.2	–.1	–.1	.2	.1
Other.....	21.6	.2	–6.0	–6.5	–1.0
Addendum:					
Net lending or net borrowing (–) ¹	114.3	22.9	–18.4	–23.3	–33.1
Federal Government.....	177.3	23.6	–13.7	–10.3	–23.3
State and local government.....	–63.0	–.7	–4.7	–13.0	–9.8

1. “Net lending or borrowing” is conceptually similar to “net financial investment” in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

(\$13.0 billion at an annual rate) to Israel for economic support. In contrast, transfer payments to persons increased \$9.6 billion after increasing \$28.4 billion. The deceleration was mostly accounted for by decelerations in benefit payments for social security (old-age, survivors and disability insurance) and for supplemental security income and by a downturn in benefit payments for veterans pensions; first-quarter payments for these and other programs were boosted \$15.6 billion by a 3.5-percent cost-of-living adjustment.

State and local

The State and local government current surplus decreased \$0.8 billion, to \$21.5 billion, in the second quarter after decreasing \$6.3 billion in the first. Both current receipts and current expenditures decelerated.

Current receipts.—State and local government current receipts increased \$20.8 billion in the second quarter after increasing \$27.0 billion in the first. The deceleration was more than accounted for by a downturn in personal tax and nontax receipts and by a deceleration in indirect business tax and nontax accruals. In contrast, Federal grants-in-aid accelerated, and corporate profits tax accruals declined less than in the first quarter.

Personal tax and nontax receipts decreased \$2.4 billion after increasing \$4.5 billion. The downturn was accounted for by a downturn in personal income taxes, which decreased \$3.2 billion after increasing \$3.7 billion as some States returned excess revenues to taxpayers in the form of one-time refunds.

Indirect business tax and nontax accruals increased \$6.4 billion after increasing \$10.6 billion. The deceleration was mostly accounted for by decelerations in nontaxes and in sales taxes. Within nontaxes, the deceleration followed a step-up in the first quarter in out-of-court settlement payments to the States by tobacco companies.

Corporate profits tax accruals decreased \$0.7 billion after decreasing \$2.3 billion, reflecting the smaller decrease in domestic corporate profits before tax.

Current expenditures.—Current expenditures increased \$21.6 billion in the second quarter after

increasing \$33.3 billion in the first. The deceleration was accounted for by decelerations in “subsidies less current surplus of government enterprises” and in consumption expenditures.

“Subsidies less current surplus of government enterprises” increased \$2.2 billion after increasing \$11.8 billion. Subsidies increased \$2.5 billion after increasing \$12.2 billion; first-quarter subsidies had been boosted \$3.0 billion (\$12.0 billion at an annual rate) as the result of electricity purchases by the State of California.

Consumption expenditures increased \$14.5 billion after increasing \$16.7 billion. The deceleration was more than accounted for by “other services,” which increased \$0.5 billion after increasing \$4.8 billion, reflecting a deceleration in spending for natural gas. In contrast, nondurable goods increased \$2.2 billion after increasing \$0.7 billion, reflecting an acceleration in spending for petroleum products.

Net lending or net borrowing

“Net lending or net borrowing(–),” an alternative measure of the government fiscal position, is the financing requirement of the government sector. It is derived as the current surplus plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.

Net lending decreased \$33.1 billion after decreasing \$23.3 billion. The larger decrease was more than accounted for by Federal Government net lending, which decreased \$23.3 billion after decreasing \$10.3 billion. The larger decrease was attributable to an upturn in “net purchases of nonproduced assets” that resulted from a downturn in receipts for radio spectrum sales, to a downturn in “capital transfers received (net)” that resulted from a downturn in estate and gift tax receipts, and to an upturn in gross investment.

Government gross investment increased \$15.2 billion after increasing \$8.1 billion. Federal Government gross investment increased \$2.1 billion after decreasing \$2.3 billion; the turnaround reflected an upturn in equipment and software investment. State and local government gross investment increased \$13.1 billion after increasing \$10.4 billion; the acceleration was attributable to investment in structures. 